

## **CHAPTER 5: FINANCIAL PERFORMANCE**

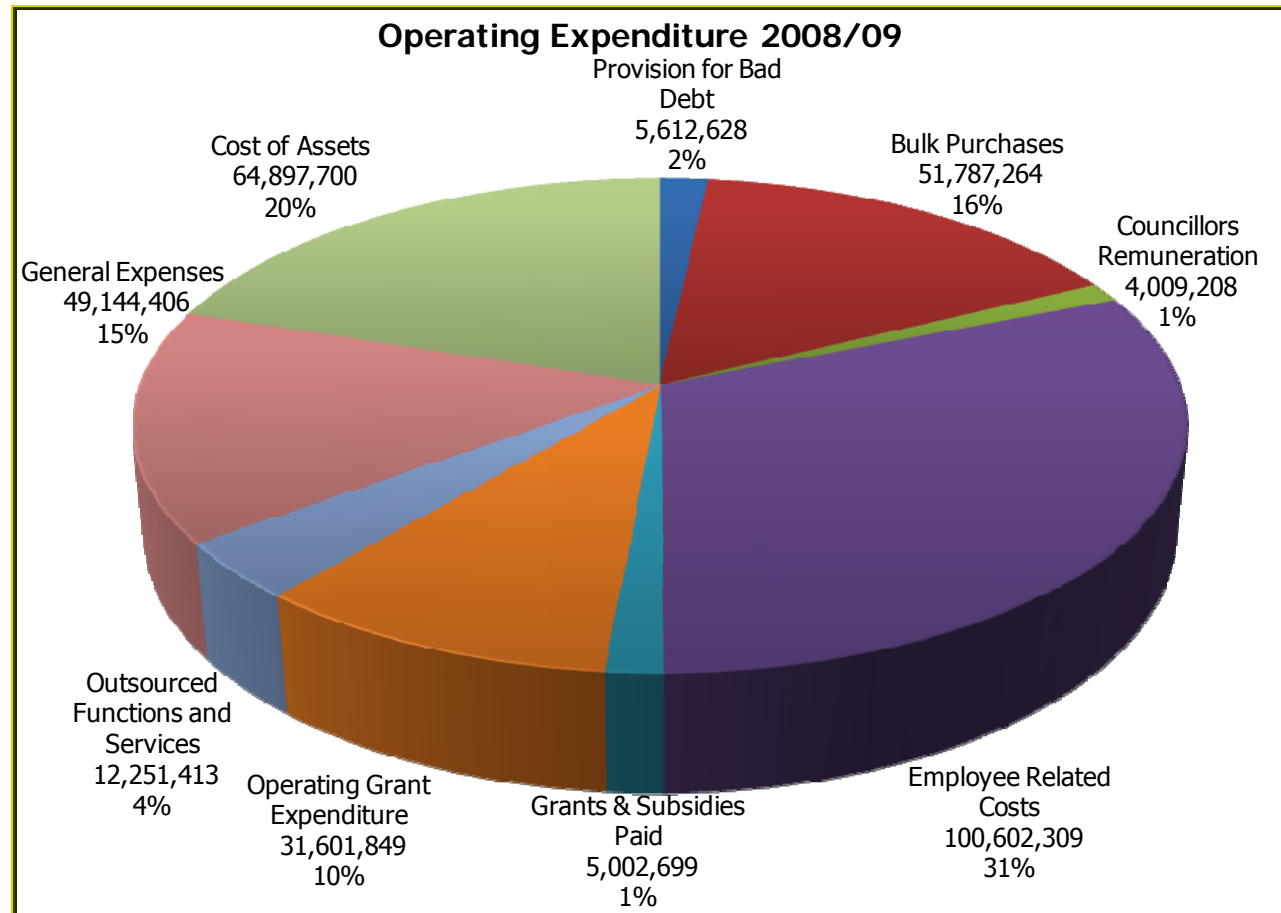
## FINANCIAL STATUS

### Summary of performance against budgets

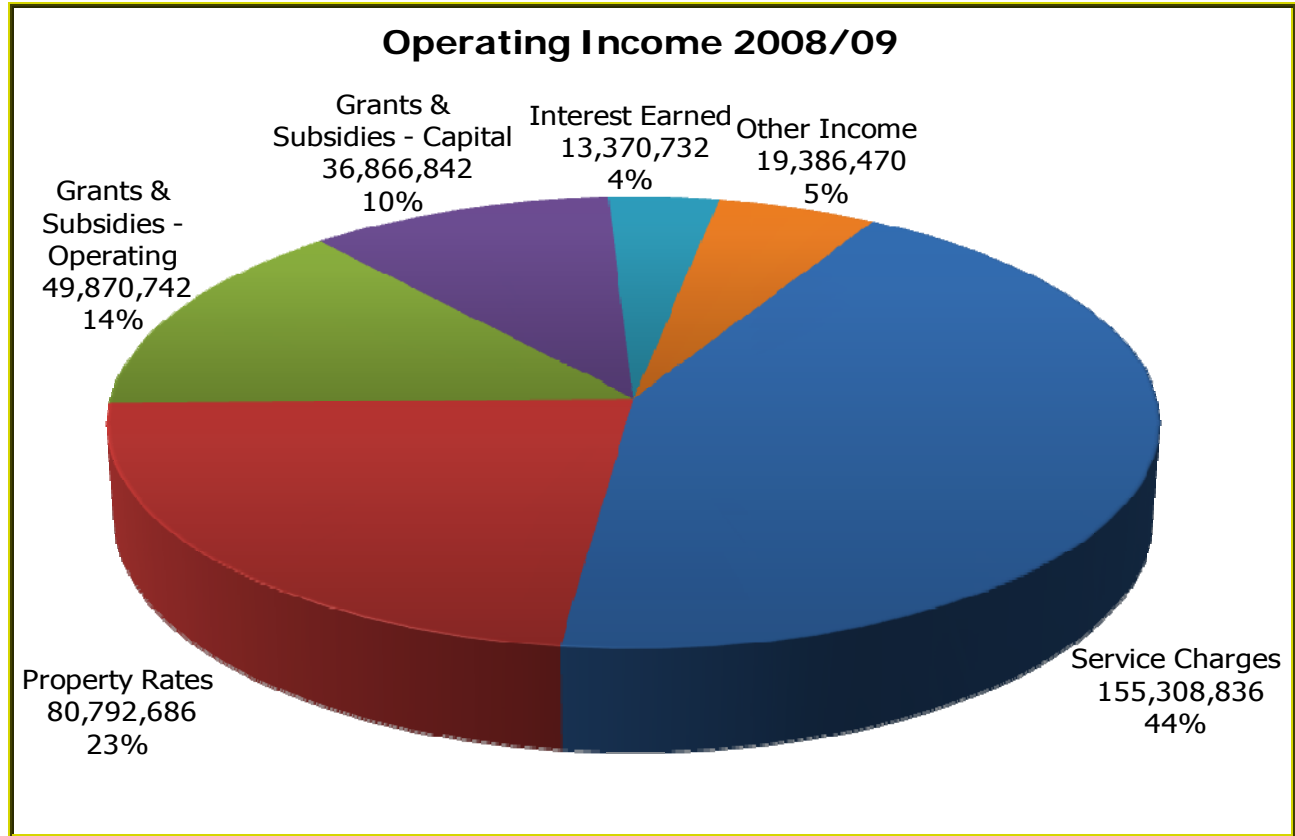
Year	Revenue				Operating expenditure			
	Budget R'000	Actual R'000	Diff. R'000	%	Budget R'000	Actual R'000	Diff. R'000	%
06/07	248 421	271 398	22 977	8.47	248 414	277 008	28 594	10.32
07/08	323 380	294 312	(29 068)	(9.88)	273 079	281 499	8 420	2.99
08/09	344 234	352 110	11 362	3.20	334 409	327 114	(9 500)	(2.92)

Table 50: Performance against budgets

### Total operating expenditure 2008/09



Total revenue 2008/09



Gross outstanding debtors per service and total debtor age analysis as at 30 June 2008<sup>1</sup>

Financial year	Rates	Trading services (Electricity and Water)	Economic services (Sanitation and Refuse)	Housing rentals	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2007/08	10 214	18 149	12 661	1 840	5 200	48 064
2008/09	16 399	27 861	16 322	2 618	3 774	66 974
Difference	6 185	9 712	3 661	778	(1 426)	18 910
% growth	61	54	29	42	(27)	39

<sup>1</sup> Note: Figures exclude provision for bad debt

year on year						
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Table 51: Gross outstanding debtors per service

**Gross outstanding debtors (Excluding provision for bad debt)****Total debtors age analysis**

Financial year	Less than 30 days	Between 30-60 days	Between 60-90 days	More than 90 days	Total
	R'000	R'000	R'000	R'000	R'000
2007/08	11 432	4 525	1 661	30 446	48 064
2008/09	19 307	7 212	2 889	37 566	66 974
Difference	7 875	2 687	1 228	7 120	18 910
% growth year on year	69	59	74	23	39

Table 52: Total debtor age analysis

The debtors increased by 39% year on year between 2007/08 and 2008/09. This can be contributed to the harshness of the economic recession and the increasing unemployment. Our credit control policy is being implemented and we are monitoring this situation very carefully.

**Level of reliance on grants and subsidies**

Financial year	Total grants and subsidies received (R'000)	Total Operating Revenue (R'000)	Percentage (%)
2007/08	79 379	296 677	26.06
2008/09	84 063	349 612	24.39

Table 53: Reliance on grants

**Liquidity ratio**

Financial year	Current assets (R'000)	Current liabilities (R'000)	Ratio
2007/08	87 676	89 384	0.94:1
2008/09	115 973	94 854	1.20:1

Table 54: Liquidity ratio

## **FINANCIAL STATEMENTS**

## REPORT OF THE AUDITOR GENERAL

### REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE KNYSNA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

#### REPORT ON THE FINANCIAL STATEMENTS

##### Introduction

1. I have audited the accompanying financial statements of the Knysna Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 17 to 65.

##### The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

##### The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standards of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Knysna Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

#### **Amendments to the applicable basis of accounting**

9. As set out in accounting policy note 1 to the municipality's financial statements, the municipality has adopted the transitional provisions as allowed by directive 4: "Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities" as issued by the Accounting Standards Board.

### **Material losses**

10. As disclosed in paragraph xx on page xx of the performance information, water distribution losses of 29% (1 286 mega litres) were incurred during the 2008-09 financial year.

### **Events after the reporting date**

11. As disclosed in note 49 to the financial statements, an amount of R22,9 million was awarded to the municipality by the National Treasury for drought alleviation. The Southern Cape is experiencing a severe drought, which resulted in the greater Knysna area being declared a disaster zone.

### **Restatement of corresponding figures**

12. As disclosed in notes 37 and 38 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during the 2008-09 financial year in the financial statements of the Knysna Municipality at, and for the year ending, 30 June 2008.

### **Material underspending on the budget**

13. As disclosed in appendix E(1), the municipality has materially under spent on the budget for electricity services to the amount of R7 601 214. The underspending resulted from the fact that the expenditure budget for electricity services was increased to match the budgeted revenue, which was increased as a result of the electricity tariff increases as set out by the National Energy Regulator of South Africa. The municipality did not fully utilise the budgeted funds as the demand for electricity decreased.

### Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### Unaudited supplementary schedules

14. The supplementary information set out on pages 66 to 71 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

#### Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	■	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		■
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	■	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	■	
<b>Availability of key officials during audit</b>			



No.	Matter	Y	N
5.	Key officials were available throughout the audit process.	■	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	■	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	■	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	■	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	■	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	■	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	■	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	■	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	■	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	■	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		■
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	■	

No.	Matter	Y	N
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		■
14.	SCOPA resolutions have been substantially implemented.	Not applicable	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		■
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		■
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Knysna Municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).	■	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	■	

17. With the implementation of the Standards of GRAP, the municipality experienced difficulties in producing financial statements for audit purposes that were free from errors and omissions, although not in all instances material. This situation could have led to the qualification of the financial statements had the municipality not adjusted their financial statements during the audit, based on my findings.

18. This is indicative of a situation where:

- ongoing monitoring by the finance department is not effective enough to assess the effectiveness of internal control over financial reporting
- policies and procedures related to financial reporting, which aim to improve the quality of reconciliations and maintenance of underlying records and, therefore, the accuracy and completeness of financial reporting, are not adequately established and communicated to staff in the finance department
- management did not adequately identify risks relevant to accurate and complete financial reporting and actions were not taken to address such risks. These risks should be identified by way of a formal risk assessment process relating to the achievement of financial reporting objectives and/or by implementing a formal and regularly monitored financial management improvement plan, which includes actions to address not only the material findings arising from the prior year's external audit, but also the control and compliance deficiencies identified

in that audit. The risk assessment process should inform the agendas of the audit committee and internal audit unit, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting.

19. Actions implemented by management to address the prior year audit findings during the 2008-09 financial year proved to be less effective than anticipated by management as a number of those findings recurred.
20. The next few years will pose greater challenges for the municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit, the municipality needs to:
  - develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements
  - produce monthly financial accounts for review by management
  - subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee can assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements.
21. The development of a performance management system that facilitates the preparation of a performance report that is accurate and complete and available for internal and external review in a timely manner, requires urgent attention from the accounting officer with the support of internal audit and the audit committee to ensure compliance with section 40 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

22. I was engaged to review the performance information.

### **The accounting officer's responsibility for the performance information**

23. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA.

### **The Auditor-General's responsibility**

24. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
25. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## Findings on performance information

### Non-compliance with regulatory requirements

27. The municipality's performance management system policy framework does also not in all instances comply with the Local Government: Municipal Planning and Performance Management Regulations, 2001 (regulations), issued in *GNR.796 of 24 August 2001*, as:
- the framework does not specifically state that the performance targets must be practical and realistic as required by section 12(2) of the regulations
  - the framework does not state the importance of the set targets being commensurate with available resources and the municipality's capacity as required by section 12(1) of the regulations
  - the framework does not specifically indicate that the key performance indicators must be reviewed annually as required by section 11(1) of the regulations
  - the framework does not specifically indicate that whenever the integrated development plan is amended, the key performance indicators that will be affected by such amendments must also be reviewed as required by section 11(2) of the regulations.
28. Furthermore, directors set their own targets which are not clearly linked to the service delivery and budget implementation plan, which results in the targets not being in line with the priorities, objectives, indicators and targets contained in the integrated development plan, as required by section 38(a)(iii) of the MSA.
29. The revised service delivery and budget implementation plan was not approved by the council, as required by section 54(1)(c) of the MFMA, after changes had been made to the budget.
30. The municipality did not display an advertisement to the local community offering them an opportunity to comment on the draft integrated development plan, as required by section 15 of the regulations.

### Performance information not received in time

31. An assessment could not be performed of the reliability of the reported performance information, as set out on pages xx to xx of the annual report, since the information was not received in time for audit purposes.

## APPRECIATION

32. The assistance rendered by the staff of the Knysna Municipality during the audit is sincerely appreciated.

Cape Town

27 January 2010



**MUNICIPAL MANAGER'S COMMENTS ON THE AUDITOR-GENERAL'S REPORT ON PERFORMANCE MANAGEMENT FOR THE YEAR ENDED 30 JUNE 2009.**

As part of Council's undertaking to improve performance management a new section within the Municipal Managers directorate was established with effect from 1 August 2009. This department known as Performance, Internal Audit and Risk Management will assist the Municipal Manager with the legislative requirements as set out in the Municipal Systems Act and Municipal Finance Management Act with regards to Performance Management System, Service Delivery and Budget Implementation Plan, Internal Audit and Risk Management.

The Integrated Development Plan process and the performance management process will be integrated. The IDP fulfils the planning stage of performance management. Performance management in turn, fulfils the implementation, management, monitoring and evaluation of the IDP.

Funding to enhance the current Performance Management System has been obtained from the Provincial Department of Local Government and Housing. These funds will be utilised to enhance and broaden the Council's current performance management system.

Performance contracts are to be cascaded to post level seven in 2009/2010. The remaining post levels will be implemented over the next two to three years.

The SDBIP is the first step to integrate the IDP and performance management system. SDBIP's have been in operation since 2006/2007 and form the backbone of the PMS within the Council linking with the IDP, Medium Term Revenue and Expenditure Framework, PMS and Performance contracts.

Both the Performance Management System and SDBIP systems are online and training has been supplied to all levels of management.

Section 57 employees (Directors) performance for 2008/2009 has been assessed in line with the Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal managers.

Other matters raised and not addressed above will be resolved as the Performance Management System matures.

**J.B. Douglas**

**Municipal Manager**

## **REPORT OF THE AUDIT COMMITTEE**

### **2008/2009 FINANCIAL YEAR:**

#### **REPORT OF THE KNYSNA AUDIT COMMITTEE ON THE FINANCIAL STATEMENTS AND RESPONSE TO THE REPORT OF THE AUDITOR-GENERAL**

### **INTRODUCTION**

Apart from being required to assist Council in discharging Council's oversight responsibilities and to advise Council, its political office-bearers, Councillors, Management and staff on various matters, the Audit Committee is specifically mandated by the MFMA and the Audit Committee Charter to:

1. Review the Municipality's annual financial statements to provide Council with an authoritative and credible view of the financial position of the Municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA and other applicable legislation.
2. Respond to Council on any issues raised in the audit report of the Auditor-General (A-G).

In our report, we shall deal with these two items in reverse order.

### **RESPONSES TO ISSUES RAISED IN THE AUDITOR-GENERAL'S REPORT FOR 2008/2009**

#### **Audit Findings**

The Municipality, and particularly its Finance Directorate, is to be congratulated that it has received an unqualified audit report for the second year in succession. This is a very praiseworthy achievement, particularly in the light of the continuing process of adapting to the GRAP system of accounting and the municipality's staffing constraints. It is to be hoped that this high standard of performance will be maintained and that the other issues raised in the A-G's Report for action will be expeditiously attended to by Management.

Once again the A-G appointed external auditors to audit the Municipality's financial statements. The external audit team left the Municipality on 16 October 2009. As of that date, no audit queries had been raised with Management. Subsequently, however, as many as ninety-five audit queries were issued. In our view, that was inefficient auditing, leading to formal queries being raised which should have been asked and answered before the departure of the audit team and many of which appear to us not to have been material.

Fortunately, most of the audit queries were not carried over to the Management Report of the A-G and even fewer needed to find their way into the final A-G's Report; nevertheless, while the achievement of an unqualified audit report is praiseworthy and noteworthy, there are important matters raised in the A-G's Report which can broadly be described as governance issues and which require attention. We have grouped what we consider as the most important of these under the following headings:

#### **1. Financial Reporting and Audit Issues**

A number of material misstatements were detected and corrected during the audit process. These had not been prevented or detected by the Municipality's system of internal control. There were four categories of misstatement, each totalling in the millions of Rands. The A-G's Report also highlights the difficulties experienced by the Municipality, following the introduction of the GRAP requirements, in producing financial statements for audit purposes that were free from errors and omissions. After proceeding to analyse the reasons for this, the A-G points out that the next few years will pose greater challenges for the Municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional approved Standards of GRAP.

The A-G's Report sets out as the steps which the Municipality needs to take to correct the situation, namely:

- Develop a strategy that has the overall aim to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying records, in order to produce accurate financial statements;
- Implement a discipline of producing monthly, or quarterly at a minimum, financial accounts; and
- Subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committees can play a crucial role in the review process of the financial statements.

In addition, the A-G's Report states that the internal audit plan and the audit committee's oversight should include processes to identify and mitigate risks to, and/or non-compliance with, financial reporting objectives.

We agree with all of the above, although there is no doubt in our minds that the ever-increasing GRAP regulations are a tremendous burden on all Government bodies, including Knysna Municipality.

The A-G also points to the fact that various previous years' audit findings, raised mainly as "other matters", had not been substantially followed-up. We think that such findings should, in the normal course of events, be dealt with within twelve months.

## **2. Risk**

The A-G correctly points out that a risk strategy must be adopted and risk assessments be regularly carried out. In this regard, we would point out that the drawing up of an internal audit plan for 2009-2010 has still not been done, because no new risk assessment has been conducted for more than three years. We believe that these matters should receive urgent attention. Also the appointment of a risk committee, which the Auditor-General's Management Report points out, has not yet taken place, should be made as soon as possible. The audit committee could carry out the functions of a risk committee.

## **3. Performance Management**

We agree with the A-G's views on the many performance issues he raises. The A-G's Report states that the development of a performance management system policy framework requires urgent attention from the Municipal Manager, as accounting officer, so as to facilitate the preparation of a performance report that is accurate and complete and available for internal and external review. Such a policy framework has been developed but has not been adopted by Council and is, in any event, deficient in many respects, as the A-G points out. Other deficiencies relating to performance issues are raised by the A-G, including the fact that directors set their own performance targets; these are not clearly linked to the SDBIP, which results in the targets not being in line with the priorities, objectives, indicators and targets contained in the IDP. We would add that this also leads to the setting of soft targets by some directors which can result in bonuses being awarded to them which are too high, out of line with those of their colleagues and bearing no proper relationship to the real performance of their directorates.

We would also add that, as of the 31 December 2009, the panel conducting the performance reviews of the senior management had still not completed the final overview of the performance interviews and approval of the report to be presented to Council. The whole process should have been completed by end July 2009, but was repeatedly delayed because, mainly, of the difficulties experienced in getting some of the panel members (whom the law requires to be part of the panel) and the facilitator together sufficiently early enough and for sufficiently long enough to enable the panel to complete its task timeously. Ways must be found to avoid this problem in future, in order not only to comply with the law but also to ensure that appraisals are consistent and held early enough to assist the managers to be more effective in the year ahead.

The good news, on the other hand, is that an official, of sufficiently high seniority and reporting to the Municipal Manager, has been appointed to handle inter alia the finalisation of a PMS, including electronic performance measurement, for presentation to Council, and to administer the system. Perhaps he could also act as facilitator in the performance review sessions.

During our meeting with her to discuss the audit report, the Auditor-General's representative suggested that the matters raised in the A-G's Report and the Management Report appear as regular items on the Audit Committee's Agendas, so that the Municipality's progress in addressing the matters raised by the Auditor-General can be monitored by the Committee. We agree with this suggestion and intend acting accordingly. We also intend monitoring the implementation of Audit Committee recommendations adopted from time to time by Council.

The A-G's Report also mentions certain matters under the heading "Emphasis of Matter" which are mainly of a technical nature, but should be noted. In particular, the reference to the water distribution losses of 29% for the year should be noted, not only because of the loss of revenue this represents but also because of our town's water-stressed status.

## **REVIEW OF MUNICIPALITY'S FINANCIAL POSITION, EFFECTIVENESS AND COMPLIANCE**

### **Revenue**

This year Total Revenue increased by R53m from R296m in 2008 to R349m in 2009. This represents an 18% increase which is double the rate of inflation. Property rates revenue, which increased by 39% as a result of the new valuations, was the main contributor to the increased revenue. Persistent increases of this magnitude will not be sustainable. Government Grants and Subsidies on the other hand only increased by R4,6m and made up 24% of Total Revenue compared to 26,8% in the previous year. The equitable share which made up 4,5% of total revenue in 2008 increased to 5,2% of Total Revenue in 2009. This Grant is meant to cover the cost of basic services to the indigent members of the community and this increase compensates to an extent for the increased cost of electricity. From the above it is clear that Knysna Municipality is not over-dependent on Grants to cover operating costs.

### **Expenditure**

Employee-related costs increased by 15% but as a percentage of total expenditure only increased to 30,8% in 2009 from 30,6% in 2008. The national norm for employee-related costs is 40% which confirms that Knysna Municipality has many unfilled posts.

The cost of repairs and maintenance as a percentage of Total Expenditure has decreased from 6,5% in 2008 to 5,8% in 2009. The engineering norm for maintenance is between 6 and 9%. As the percentage is now below the bottom of the norm it indicates that more will have to be spent on maintenance in future if the Municipal assets are to remain productive.

### **Debtors**

The debtors collection period has unfortunately increased from 92 days in 2008 to 104 days in 2009. This together with the increase in rates and service charges has resulted in debtors increasing by R12,75 m or 35%. This means that even more attention will have to be given to the collection of outstanding amounts.

### **Liabilities**

The ratio of current assets to current liabilities has improved from 0,98 in 2008 to 1,22 in 2009. This ratio measures the ability of the Municipality to use its near cash assets to meet its current liabilities. The norm for this ratio is 1,75. The fact that this ratio is still far below the norm indicates a liquidity problem. The quick ratio which is the ratio of current assets excluding debtors and inventory has also improved from 0,55 in 2008 to 0,68 in 2009. The norm in this case is 1. These ratios indicate the current financial health of the organization and are very important to creditors and particularly long term loan creditors. This area continues to be of major concern and must receive further urgent attention in order to effect improvements in the future. Management is well aware of this and is doing what it believes is necessary to manage the situation. Its task will be made more difficult due to South Africa's slow recovery from recession, the proposed increases in electricity tariffs and the ongoing need to meet the service delivery requirements of the town.

### **Compliance, Efficiency and Effectiveness**



As far as compliance with the provisions of the Municipal Finance Management Act (MFMA) and other legislation in relation to financial matters is concerned the Municipality continues to do well, particularly when compared to other Municipalities. The difficulties related to compliance with GRAP requirements have been referred to above.

As noted earlier, there is still room for considerable improvement in the area of performance management and measurement. Until this is fully addressed, the Municipality will not be able to meet the required standards of efficiency and effectiveness required to manage the town and achieve the necessary standard of service delivery.

## **RECOMMENDATIONS AND CONCLUSION**

Despite the sub-standard field work by the outsourced auditing team, referred to above, we believe the Auditor-General has produced an excellent Report which gives not only reasoned criticism but also logical suggestions for improvements. The Report must be studied and acted upon by the Municipality.

We recommend that Council –

1. Note the Auditor-General's Report and the Audit Committee's Report;
2. Approve the Municipality's audited Financial Statements for the year 2008/2009; and
3. Direct the Finance, Economic Development and Governance Committee to review, at its February 2010 meeting, the Auditor-General's Report and the Audit Committee Report and draw up proposed action for consideration by Council and Management arising out of these Reports.

We express our thanks to the Municipality's senior Management and staff (especially the Financial Director and his staff), the Executive Mayor and Council's other political office-bearers, Councillors, the Auditor-General's staff and contracted-out auditors, and the Internal Auditor's staff for co-operation during the past year.

R BARRELL (Chairperson)  
P BASTIAN  
N METELERKAMP  
D MULLER

Knysna  
6 January 2010